MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BSM3614 – STRATEGY
(All Sections/Groups)

15 OCTOBER 2019
9:00AM – 12:00PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **SEVEN (7) pages** (<u>exclusive</u> of cover page) only.

2. **Answer ALL questions.** All questions carry equal marks and the distribution of the marks for each question is given.

3. Please provide **all your answers** in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Read the following case and answer the question at the end of the case.

Amazon's revolutionary retail strategy? Recycling old ideas[1]
by Benedict Evans, Business: Wired Opinion, 07.26.19, 09:00 AM
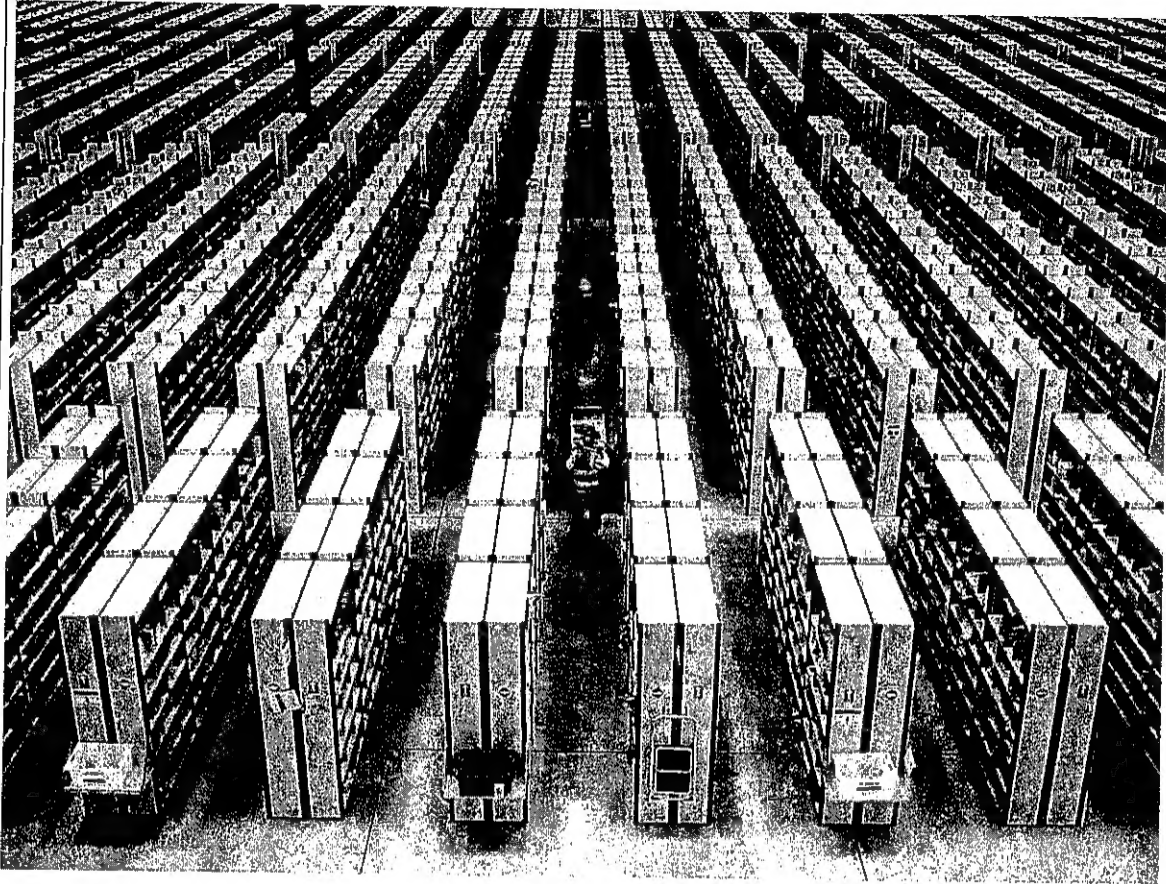
Photo: Simon Dawson/Bloomberg/Getty Image

I sometimes think that if you could look in the safe behind Jeff Bezos' desk, instead of the sports almanac from Back to the Future you'd find an Encyclopedia of Retail, written in maybe 1985. There would be Post-It notes on every page, and every one of those notes would have been turned into a team and maybe a product.

Amazon is so new, and so dramatic in its speed and scale and aggression, that we can easily forget how many of the things it's doing are actually very old. And we can forget how many of the slightly dusty incumbent retailers we all grew up with were also once considered radical, daring, piratical new businesses that made people angry with their new ideas.

---

[1] Sourced from: https://www.wired.com/story/amazons-retail-strategy-recycling-old-ideas/

This goes back to the beginning of mass retail. [...] Sears Roebuck [...] used catalogs to transform retail [...]. The pages below come from the retailer's 1908 catalog; white-label and private-label products are not new either, and you can bet that Sears was using sales data to decide what market segments to enter next.

Photo: Sears Roebuck

Amazon, of course, is the Sears Roebuck of our time, but it's more than that. Amazon is systematically going through every branch of the idea tree around what retail is, and doing it without any pride. It's trying everything that anyone has ever tried before, and anything else that it can think of that might make sense, as well. There is no one saying "that's a good idea, but we're a website so we wouldn't do that."

The clearest place to see this is in Amazon's moves into physical retail. This is the opposite of pride or "principle." Amazon's job is "to get you the thing," not "to be a website," so what are the best ways to do it? What else might work? The project to make a convenience store with no human checkout process is an obvious experiment, now that machine learning and computer vision offer a route to make it work. (There are a number of startups pursuing all the possible vectors to doing this.)

More interesting, though, are the Amazon Four-Star stores, physical retail stores —currently in New York and Berkeley, California—that only sell products rated highly by users on its site. I joked on Twitter that they feel as though they were designed by very clever people who have seen shops in Google Street View but have never actually been inside one. There's a sense of cognitive dissonance: The selection of products appears to be completely random. There's a rice cooker, a Harry Potter Lego set, a cushion, a Roomba, a mixing bowl, a book about trees ... It makes no sense.

Of course, sometimes "it makes no sense" is the right reaction (remember the Fire Phone after all). But when clever people do things that make no sense, it can be worth looking twice. Is this a new discovery model? A different way to change how people think about purchasing? Well, it's another experiment. All of this reminds me of stories about early Google and how the company systematically rethought everything from first principles. Sometimes this was just a painful waste of time, as it learned the lessons everyone else had already learned, but sometimes the result was Gmail or Maps.

Sometimes the experiment is still in progress: Though Amazon has managed to put Alexa into more than 50 million homes, it's not yet clear what strategic value it will gain. But it's better to own the experiment and get the option value than to sit on the business you already have and watch someone else try something new.

On the other hand, it's interesting that Amazon seems to be doing as much experimentation as possible around the logistics model—from stores to drones to warehouse robots of every kind—but much less around the buying experience, other than small-scale tests of the Four-Star stores. After all, historically, department stores were about pleasure as much as they were about convenience or price. They changed what it meant to "go shopping" and helped turn retail into a leisure activity.

This has always been the gap in the Amazon model. It's ever more efficient at finding what you already know you want and shipping it to you, but bad at suggesting things you don't already know about, and terrible whenever a product needs something specific—just try finding children's shoes by size.

This is probably inherent in the model. For Amazon to scale indefinitely to unlimited kinds of products, it needs to have more or less the same commodity logistics model for all of them. That's the line it's never been willing to cross. Amazon doesn't do "unscalable." And yet, while we now know there is nothing that people won't happily buy online, not everything will fit that commodity model. So maybe that's the real test of Amazon's pride: Can it work out how to let us shop rather than just buy?

Analyse the industry that Amazon is in by using the <u>Five Forces Model</u> and make your recommendation.

(20 marks)

QUESTION 2 (20 MARKS)

(a) Analyse the FOUR (4) <u>criteria</u> that should be used to determine whether an organisation's capabilities are <u>core competences</u> and can be a source of competitive advantage.

(10 marks)

(b) Based on the above and what you know of the organisation, evaluate FIVE (5) of Amazon's <u>core competences</u> that have enabled the organisation to maintain its successful position in the online retail industry.

(10 marks)

QUESTION 3 (20 MARKS)

(a) Truly innovative companies are able to deliver a consistent stream of market successes via successful businesses and products or improved processes that continuously translate market successes into economic value that enhances competitive advantage and sustains growth.

Justify the above statement.   (15 marks)

(b) Consider AmazonGo, a high tech supermarket that keeps a virtual shopping cart and allows customers to just walk out when they are done shopping. A bill is automatically sent to their Amazon account.

Discuss the TWO (2) types on innovation. Determine the type of innovation as illustrated in AmazonGo.   (5 marks)

QUESTION 4 (20 MARKS)

Provided are <u>hypothetical</u> internal and external analyses for a <u>Strategic Position and Action Evaluation</u> (SPACE) Matrix of an online retailer.

Internal Analysis		External Analysis	
Financial Position (FP)		**Stability Position (SP)**	
Brand value: Sooq has a brand value of US$5.38 billion, up by 20% since 2015.	4	Social and environmental commitment: According to the 2018 Nielsen Global Survey on Corporate Social Responsibility, 55% of global online consumers across 60 countries say they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact.	-2
Dividend policy: Its average dividends per share growth rate has been 41.90% per year for the past 5 years.	4	Agricultural impact: Close to 800 million people around the world live in rural areas and rely on agriculture to make a living.	-2
Revenue position: Revenue from its ecommerce business account for about 70%-80% of its total net revenues.	2	Household income: Across the rapid-growth markets (RGMs), there will be nearly 200 million households with incomes in excess of US$35,000 by 2022, with spending on services such as communications, culture and recreation.	-2

Debt position: It entered into a ¥5 billion four-year unsecured term loan, where repayments of ¥0.5 billion are payable on 15 January of each year, commencing on 15 January 2017 with a final repayment of ¥3.5 billion due on 15 January 2020.	2	Risk involved in business: 30 percent of retailers cite Payment Card Industry (PCI) standards and Europay, Mastercard and Visa (EMV) compliance as a potential risk to their business. .	- 3
Compound Annual Growth Rate (CAGR): Sooq's online sales have grown at a CAGR of 17% in the past 5 years and doubled its e-commerce penetration to 14% for 2018.	4	Factor of inflation: In the International Labour Organisation's (ILO) annual "Global Employment Trends" report, an estimated 201.8 million people were jobless in 2018, up by nearly 5 million in one year, a new high, exceeding 2016's record of 198 million; additionally, in 2018, an estimated 375 million workers - 11.9 percent of the world's workforce - lived on less than $US1.25 a day, while 839 million - 26.7 percent - received $2 a day or less.	- 3

Competitive Position (CP)		**Industry Position (IP)**	
Company size: It offers free shipping to 66 countries over Americas, Europe, Middle East, Africa and China/Asia Pacific, generally carrying all its merchandise.	- 3	eCommerce popularity: Reflecting the increase in online shopping and home deliveries, over a third of adults (34%) who say they are receiving more items of post, say they are receiving more parcels now than two years ago. Among those who say the number of items of post they receive has increased, 37% of those with web access say they are receiving more parcels, compared to just 8% of those without access to the internet at home.	4
Sustainable practices: The Sooq Sustainability Data Initiative promotes sustainability research, innovation, and problem-solving by making key data easily accessible and even more widely available.	- 2	Inventory concerns: The products most frequently purchased online will remain textiles, media and electronic goods. Nevertheless, consumer interest in purchasing furniture, drugstore products and do-it-yourself (DIY) articles online is likely to increase in the future.	4

Continued ...

Workforce diversity policy: It is independently certified as paying women and men equally; more than 70% of its workforce is female and 60% of its director-level employees and half of its vice presidents are women; in addition, it provides the P.A.C.E. (Personal Advancement & Career Enhancement) workplace education programme for its female employees.	-2	Industry growth: By 2023, online retail sales in Asia Pacific will total US$2.5 trillion – accounting for 28% of total retail sales globally. Of these, India continues to be the fastest-growing region in the world, and is projected to reach US$85 billion in online retail sales by 2023.	3
Strategic locations: Across the globe, Sooq has more than 100 operating fulfillment centres and more than 50 million square feet of space where associates pick, pack, and ship Sooq.com customer orders.	-3	Operational trends: According to the Curalate Customer Survey 2017, 55% of adults aged 18-65 had bought products within the last three months after discovering them on social media – either immediately (11%) or later on (44%).	6
Customer experience: It promotes the Sooq Feel, built upon the criteria of customer experience and brand loyalty.	-3	Competitive pressure: Online groceries also have a lot of ground to make up: in 2017, online grocery sales came to $31.39 billion, a fraction of the $1.043 trillion US food industry. Meanwhile, in the UK, the share of grocery retail sales carried out online grew by 0.9% in two years, rising from 6.1% in 2016 to 7% in 2018. It is forecasted that this share will grow to 10% of all grocery sales by 2023, with online grocery sales set to total £19.8 billion, up from £12.3 billion in 2019.	5

(a)   Describe the <u>Strategic Position and Action Evaluation</u> (SPACE) Matrix.   (5 marks)

(b)   Based on the above table, provide the necessary calculations and plot the SPACE graph. (*Marks will be allocated for workings.*)   (10 marks)

(c)   Based on your findings in (b), provide <u>recommendations</u> for the organisation to plan for its future growth.   (5 marks)

Continued …

QUESTION 5 (20 MARKS)

The strategic management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse. Therefore, most strategists agree that strategy evaluation is vital to an organisation's well-being. Timely evaluations can alert management to problems or potential issues before a situation becomes critical.

Discuss in detail Rumelt's strategy evaluation criteria to support the above view.

END OF PAGE